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## Bankers See Lessons in Ohio crisis Underscores Fragility of System After Deregulation

By John M. Berry  
*Washington Post Service*

**WASHINGTON** — Karen N. Yen, president of the Federal Reserve Bank of Cleveland, summed the larger lesson in the crisis that faced the governor of Ohio to do three-day bank holiday for state-chartered savings and loan associations.

"Financial institutions really don't run on cash as much as they run on confidence," said Mrs. Yen. "There is no amount of cash in the end that will do the trick if that confidence is stripped away."

The Ohio crisis underscores the agile, interlocking nature of the nation's financial system, and how problem in one part of it can quickly spread elsewhere.

It also is another example of how, with deregulation of that system, and the desire of both investors and managers of financial institutions to seek out the highest possible yields within that deregulated structure, risks can be assumed that no one even knew were there.

As more and more types of investments are created, officials at the Federal Reserve are becoming increasingly concerned. They are worried both about the actual increase in risks and about the fact that they are sure they have not been able to identify all of them.

In Ohio, depositors had been willing to put their \$4 billion in the state-chartered savings and loans in part because of the oval signs prominently displayed in their windows.

"Ohio Deposit Guarantee Fund," the signs read. "All Savings Guaranteed in Full."

But guarantees that a depositor's money is safe are valuable only to the extent that the guarantor can make good a loss if called upon to do so.

Earlier this year, the nation's second-largest commercial bank, the

Bank of America, lost nearly \$100 million in a complicated transaction because some insurance companies that had guaranteed mortgages on property were unable to pay off when it turned out that the property values were greatly inflated. The assets of the insurance companies were not large enough to stand the loss.

The \$130 million worth of assets in the private Ohio Deposit Guar-

Major Ohio banks are being urged to take over the state's troubled S&Ls. Page 7.

ante Fund apparently will be wiped out by the failure of a single institution — Home State Savings Bank.

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At the end of 1984, Home State had assets supposedly worth \$1.4 billion and deposits of \$668 million. Thus, the savings and loan's transactions with ESM involved an amount of money almost equal to the institution's entire deposit base.

The difference between Home State's assets and deposits was rep-

resented by its capital and funds obtained from other sources, such as the borrowing from ESM.

Companies such as ESM are not regulated as are banks and savings and loans, although regulated institutions have also failed because of bad management and the sort of fraud that authorities say was responsible for the bankruptcy of ESM.

A sizable number of other institutions and cities also suffered losses in ESM's failure, though much smaller than those of Home State, the exact amount of which is still unknown.

When news of the Home State involvement with ESM became known, depositors began an old-fashioned run on the savings and loan. About \$20 million was withdrawn before it closed its doors.

After Governor Richard F. Celeste declared the bank holiday, depositors who did not move as fast have their money tied up and may face a loss.

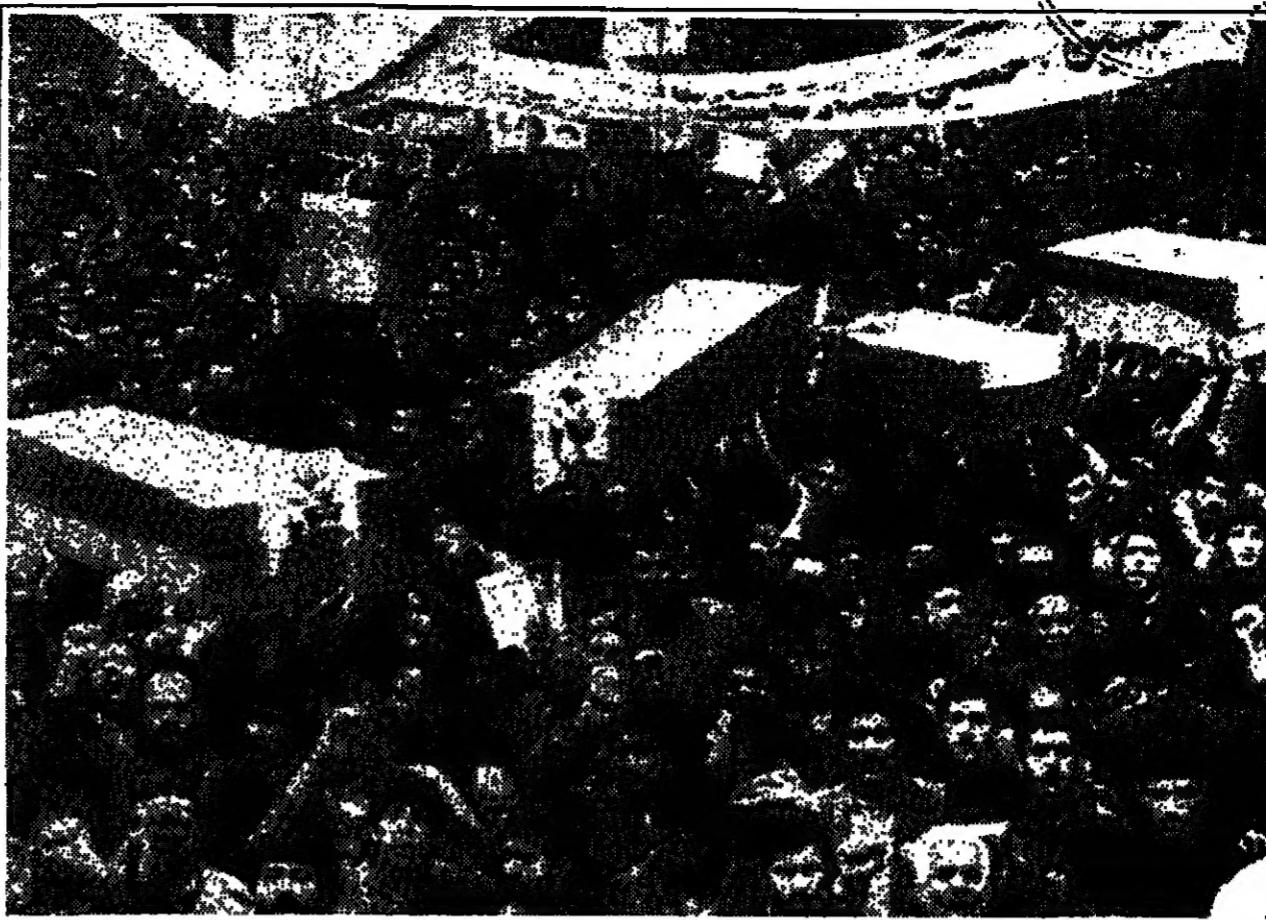
ESM bought and sold for its customers securities such as those issued by the U.S. Treasury. It also executed repurchase agreements, or "repos."

Under a repurchase agreement, someone with cash on hand agrees to buy a security from someone else who wants the cash and who in turn agrees to buy back the security for the same price plus interest at a later date.

There were also "reverse repos," through which ESM paid out cash in exchange for securities while agreeing to sell the securities back later.

When ESM went bankrupt on March 1, it had provided Home State with between \$640 million and \$670 million using reverse repos, while the savings and loan had apparently provided ESM with government securities worth significantly more than that.

(Continued on Page 3, Col. 1)



Thousands marched in funeral ceremonies on Sunday for the 14 persons killed in the bombing at Tehran University.

## Fighting Increases In Gulf

**Baghdad Warns  
Airlines to Avoid  
Flights Over Iran**

*Reuters*

**BAHRAIN** — The war in the Gulf intensified over the weekend as Iraqi and Iranian troops battled for control of a strategic road in southern Iraq. At least three ships were attacked on Sunday.

In a further development, Iraq warned international airlines to stay out of Iranian airspace, which it declared a "prohibited zone" effective 5 P.M. Greenwich Mean Time on Tuesday.

[British Airways postponed indefinitely all its flights to the Middle East in response to the Iraqi warning. United Press International quoted airline officials as saying Sunday.]

There was no immediate reaction from other major airlines serving Tehran, which include Air France, Lufthansa and Swissair. But in Baghdad, aviation sources said that Lufthansa, Kuwait Airways and Alitalia had already suspended flights to Baghdad following an Iranian air raid attack there last week.

The Iranian government, meanwhile, said 14 persons died and 88 were wounded by the bomb explosion at Friday's open-air prayer service at Tehran University. Earlier reports had put the number of dead at six. The government blamed the Paris-based opposition group known as the Mujahidin.

On the war front, heavy fighting was reported in marshes east of the Tigris River as the Iranians, who launched a big attack there last week, battled to cross it and seize the highway from Baghdad to the southern port of Basra.

Informed sources in Tehran said Iranian troops had taken six miles (10 kilometers) of the road, but there was no official confirmation of the report. A Baghdad newspaper quoted an Iraqi commander as saying the Iranians crossed the river on Saturday but were driven back.

Cutting the road to Basra would leave Iraq's second-largest city, with a population of one million, linked to the north by only one road from the west.

Diplomats in Tehran said the Iranians would be likely to make a drive on the city if they gained a firm hold on the Tigris' west bank, as a possible prelude to an offensive on Baghdad.

Both sides reported inflicting heavy casualties in the fighting, which Iraq described as the fiercest of the war.

Iraq said it had killed or wounded over 7,000 Iraqis since the latest offensive began, and the Iraqi information minister said that 15,000 Iranians had been killed on Saturday alone. Neither side provides details of its own military casualties.

Iraq said that more than 100 Iranian civilians died and hundreds were wounded on Saturday, when Iraqi planes launched waves of bombing and rocket raids on Iranian towns.

Iraq acknowledged that its planes had raided about a dozen towns, some of them deep inside Iran, including the central city of Isfahan and the northern town of Rash, near the Caspian Sea.

In notifying international airlines of the prohibited war zone, an Iraqi military spokesman said that

(Continued on Page 2, Col. 6)

## Syrians Confront Anti-Gemayel Rebels

*Reuters*

**BEIRUT** — Syrian troops massed this weekend on the northern boundaries of Lebanon territory held by Christian militiamen in revolt against President Amin Ge-

mayel's forces, it was reported earlier from Barbarach, Lebanon.

Another 11 members of the U.S. Embassy staff in Beirut were evacuated Saturday because of the deteriorating security situation, and three gunmen kidnapped the American bureau chief of The Associated Press in Beirut.

Lebanese security sources said three Syrian brigades were deployed on a 16-mile (25-kilometer) front from the Beirut-Tripoli coastal highway into hills a few miles south of Tripoli.

Beirut newspapers quoted Prime Minister Rashid Karami as telling confidants that Syrian troops would intervene only at the request of the Beirut government.

But the reports said Mr. Gemayel was not expected to ask the Syrians to fight the Christians rebelling against his Phalange Party, and the Syrian moves appeared aimed at forcing them to accept a political solution.

The radio station of the Phalange Party said a three-man committee representing him, the rebels and a neutral figure had reached a draft compromise solution on Saturday and was consulting with unspecified groups on ways to carry it out.

No details of the compromise were available. The rebels, led by Samir Geagea of the Lebanese Forces, have disowned Mr. Gemayel as a Christian spokesman and want the formation of a National Christian Council to work

out the community's stand on any political changes.

**■ U.S. Reporter Kidnapped**

William Claxorne of The Wash-

ington Post reported earlier from Barbarach, Lebanon.

The rebels object to Mr. Gemayel's efforts, backed by Syria, to reach a political accord with Lebanon's Moslems.

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## U.S. Officials Are Split On Response to Newest Soviet Strategic Missiles

By Walter Pincus  
*Washington Post Service*

WASHINGTON — The Soviet Union has apparently begun to deploy its new mobile intercontinental missiles, and U.S. officials are divided over how to respond.

The Russians are also destroying some older, silo-based missiles, a move that some officials think means that Moscow may be preparing to stay within the limits of the SALT-2 arms control agreement.

These officials, including some top-ranking military men, also think the mobile missiles, if swiped for silo-based ones, result in a less threatening nuclear array. Therefore, they want to encourage Moscow to stay within the limits of the strategic arms limitation treaty and destroy old, silo-based intercontinental ballistic missiles, or ICBMs, as the new weapons are deployed.

To help accomplish this, these officials think the United States should move to extend the treaty, since the 1979 agreement expires at the end of the year. Although the U.S. Senate never ratified the SALT-2 treaty, both the United States and the Soviet Union agreed to abide by its provisions.

But other Reagan administration officials think the first of the mobile missiles being deployed, the single-warhead SS-25, violates the terms of the accord. Deployment of the missile and a larger, rail-mobile, 10-warhead SS-24, they say, will be destabilizing and result in an escalation of the arms race.

These officials want the United States to oppose the new weapons.

The new Soviet missiles are bound to come up as a subject in the strategic arms discussions between the United States and the Soviet Union that began Tuesday in Geneva.

Earlier this month, Colonel General Nikolai F. Chernov, a member of the Soviet general staff and a spokesman on arms control matters, said the United States and the Soviet Union have agreed to discuss the SALT-2 limits.

The reported Soviet ICBM deployment puts additional pressure on the negotiators to continue some limit while they attempt to achieve reductions. In addition, if it takes no action, the United States will exceed another of the SALT-2 limits, permitting only 1,200 multi-warhead missiles on land and sea; when the submarine Alaska is scheduled to go on sea trials this fall with 24 missiles.

There are signs of deployment of the SS-25 at two Soviet missile fields, according to intelligence sources.

## Right Gains in French Voting

(Continued from Page 1)  
didate defeated a neo-Gaullist who had decided to withdraw in his favor.

Socialist voters turned out in slightly higher numbers than on the first ballot but still too few to produce a significant comeback.

The Communist Party, projections indicated, seemed likely to drop below 10 percent of winning candidates.

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James A. Abrahamson

## U.S. Aide Sees Early Decision On 'Star Wars'

By Charles Mohr  
*New York Times Service*

WASHINGTON — The director of a program to develop a defense against nuclear missiles has predicted that a "reasonably confident decision" on whether to make such weapons could be made by the end of this decade or in the early 1990s.

Lieutenant General James A. Abrahamson of the air force said Friday that it was "an overestimation of the problem" to suggest that it would be the end of the century or later before it became clear whether the program was feasible.

General Abrahamson, who heads the Strategic Defense Initiative Office, made his remarks in testimony before the Subcommittee on Strategic and Theater Nuclear Forces of the Senate Armed Services Committee.

He said that an earlier decision on the technology might be made "to be able to move into the initial portion" of what is now envisioned as a three-layer system to intercept and destroy nuclear missiles.

Several times, General Abrahamson denied that the objective of the program might be shifted from a widespread defense of the United States and Europe to a limited defense of U.S. missile silos and military facilities.

Most will be carried on rail launchers that will be difficult to locate and count, sources said.

The SS-25 operates on solid fuel and travels on a tractor-drawn launcher. With completion of shelters, sources said, substantial emplacement is expected within the next six months.

He indicated that kinetic-energy interceptors, which would probably be propelled by rockets or fired by powerful pulses of magnetic energy, could be part of a three-tiered defense system. That system would attempt to destroy Soviet missiles and warheads soon after launching, while warheads were coasting through space and, finally, after they re-entered the atmosphere.

To be used to attack missiles in the lifting phase, kinetic-energy rockets would have to be based on space stations permanently orbiting the Earth, scientists say.

The general did add to the doubt already cast by others in his office on the possible use of X-ray lasers that would be powered by nuclear explosions in space.

He said that his office's emphasis was on President Ronald Reagan's objective of a non-nuclear defense and that the X-ray lasers were "a very small part of the total effort."

## EC Ministers Meet in Effort to Agree On Entry Terms for Spain, Portugal

The Associated Press

BRUSSELS — The foreign ministers of the European Community opened a four-day negotiating session Sunday on membership terms for Spain and Portugal.

The 10 ministers were also seeking agreement on financing this year's community budget and on terms of a special aid program for poorer Greek and Italian farmers.

The foreign ministers' regular two-day monthly meeting was expanded to four in an effort to resolve these problems before an EC summit meeting scheduled for March 29 and 30.

Many officials say that the terms for Spanish and Portuguese membership must be settled now if the parliaments of the member countries are to ratify the accession treaties by Jan. 1, 1986, the date on which the two nations are supposed to join the community.

Some governments fear that if the target date is missed, the en-

largement effort could be suspended.

Many membership terms for Spain and Portugal remain to be settled. The most disputed are access for Spain's large fishing fleet to community waters, the rights of Portuguese and Spanish workers to jobs in the 10 other member nations and access of Spanish fruits and vegetables to community markets.

The size of their contribution to the annual EC budget must also be resolved. The budget is financed by customs and agricultural duties and by the transfer of each country of 1 percent of its value-added, or sales, tax collections.

Last summer, the EC government agreed to increase the value-added tax contribution to 1.4 percent of receipts to finance the expansion of the community. The extra money was supposed to become available Jan. 1, 1986.

However, all countries with the

exception of West Germany now favor advancing the effective date to mid- or late-1985 to finance this year's budget, which was rejected in December by the European Parliament.

The advancement of the date would clear the way for the government Council of Ministers to submit a new budget to Parliament.

Another major obstacle facing the foreign ministers is Greece's objection to the size of proposed financial aid for the poorer southern regions of the community, mainly Greece and Italy.

The plan, called Integrated Mediterranean Programs, calls for 2 billion European Currency Units (\$1.4 billion) in grants, 2.5 billion ECU in loans and an undetermined amount of money diverted from existing community aid programs.

Greece has said that if its demands for more money are not met, it will veto the membership of Spain and Portugal.

## WORLD BRIEFS

### Reagan and Mulroney Open Summit

QUEBEC (UPI) — President Ronald Reagan, opening a meeting with Canada's prime minister, Brian Mulroney, called Sunday for "fair dealing, cooperation and a spirit of give and take" between the two countries. The summit promised to be dominated by the environment issue of acid rain.

President Reagan hailed the basic strength of U.S.-Canadian relations and suggested differences of opinion could be resolved cordially with the "most productive relationship between any two countries in the world today."

Mr. Reagan, making his first trip out of the United States since the start of his second term two months ago, was accompanied by 12 advisers and cabinet members reflecting the issues on the agenda.

Secretary of State George P. Shultz, Defense Secretary Caspar W. Weinberger, Attorney General Edwin Meese III, William Brock, chairman of the Environmental Protection Agency, and Lee Thomas, administrator of the Environmen-

tal Protection Agency.

### Hijacker Is Slain on Saudi Airliner

MANAMA, Bahrain (Reuters) — A lone hijacker who seized a Saudi Arabian airliner over Riyadh, Saudi Arabia, on Sunday was shot dead by a security guard aboard the Boeing 737, the Gulf News Agency reported.

The agency quoted a statement from the Defense and Aviation Ministry as saying that the plane with 76 passengers aboard had been hijacked from Jeddah to Kuwait.

The statement said the plane was over Riyadh around 2:50 P.M. on Sunday when the pilot warned air traffic control that the aircraft had been hijacked by a person armed with a hand grenade. A security guard on the plane shot the hijacker after failing to persuade him to surrender the grenade, which exploded and caused some damage in the struggle.

### U.S. Bishops Urge Vote Against MX

WASHINGTON (NYT) — The Roman Catholic bishops of the United States have sent a letter to every member of Congress urging them to vote against funds to produce the MX nuclear missile.

The letter from the U.S. Catholic Conference, sent Friday, was to reach Congress before the first of four votes on the intercontinental missile, beginning Tuesday. The conference, which consists of about 2,000 Catholic bishops, said its opposition to the missile was based on "potentially destabilizing impact of this weapons system on the nuclear arms race," and "its cost, viewed in light of pressing human needs."

The letter to Congress was clearly the most specific and firm opposition to the MX missile expressed by the Catholic bishops. Both houses of Congress must vote on whether to release \$1.5 billion to produce 21 M missiles. One vote in each house will be to authorize the release, the other to appropriate funds. The first vote in the Senate has been scheduled for Tuesday.

### Sindona Sentenced to 15-Year Term

MILAN (Reuters) — Michele Sindona, the Sicilian financier, has been sentenced to 15 years in prison for his part in the fraudulent collapse of his banking empire more than 10 years ago.

The sentence was passed Saturday after a Milan court found Mr. Sindona guilty of bank fraud and of falsifying records of his companies' financial speculation on the Milan stock exchange. The court also banned Mr. Sindona from ever holding public office and from conducting business for 10 years. He was ordered to pay two billion lire (about \$1.2 million) to his creditors.

Mr. Sindona, 64, was a financier and Vatican adviser until his business, including the Banca Privata Italiana, crashed in 1974. He was extradited last September from the United States, where he had been serving a 25-year sentence for fraud in connection with the collapse of Franklin National Bank.

### Missile Opponents Protest in Brussels

BRUSSELS (Reuters) — Protesters held a rally Sunday in central Brussels and called on the parliament to censure the government for accepting U.S. cruise missiles. The parliament is to vote on a decision on Monday.

Turnout at the march was evaluated at several thousand people. Karin Miert, leader of the opposition Flemish-speaking Socialist Party, said the government had shown contempt for the parliament by announcing the decision until Friday, when 16 of the U.S. missiles were on their way to a site in Florennes, south of Brussels.

Prime Minister Wilfried Martens said on television that the government alone had the right to decide on security, but that parliament could refuse to approve the government's plans. Mr. Martens' Social Christian Party is divided over the missiles, and political sources said seven members might abstain, threatening the government's six-seat majority. But support from fringe opposition parties should help the coalition survive.

### For the Record

Secretary of State George P. Shultz of the United States will visit Vienna in May for celebrations marking the 30th anniversary of Austria's State Treaty, and Foreign Minister Andrei A. Gromyko of the Soviet Union is also expected, Austria announced Sunday. (Reuters)

Frederic Casting, 41, a French businessman, said Sunday he had been abducted and tortured in Poland last week after being questioned by police about documents in his possession concerning the outlawed Solidarity trade union. Mr. Casting, an expert in historical documents and autographs, said he had been detained by police in Krakow for 10 days and then ordered to leave the country. (Reuters)

The president of Tanzania, Julius Nyerere, arrived in Britain on Sunday for a four-day visit that is to include a meeting with Prime Minister Margaret Thatcher. (UPI)

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## AMERICAN TOPICS

## Pundits Predict Candidates for 1988

Two years before the last presidential election, a poll of the House Administrative Assistants Association, composed of senior congressional aides, predicted that Ronald Reagan would run for re-election against Walter F. Mondale.

The New York Times reports that, "flushed with this record for prescience," the same group of political professionals has produced an even earlier forecast for 1988, though the crystal ball appears a good deal cloudier for that year. Focusing on probability rather than personal preference, 60 percent of the 310 members predicted that the nominees would be Vice President George Bush for the Republicans and 39 percent bet on Governor Mario M. Cuomo of New York for the Democrats.

Republican also-rans: Representative Jack F. Kemp of New York (25 percent), Senator Robert J. Dole of Kansas (12 percent) and Howard H. Baker Jr., the former senator of Tennessee (3 percent). Among other Democrats: Senator Gary Hart of Colorado (25 percent), Senator Edward M. Kennedy of Massachusetts (17 percent) and Representative Richard A. Gephardt of Missouri (6 percent).

## Short Takes

Major work stoppages were fewer last year than at any time since World War II, according to the U.S. Bureau of Labor Statistics. Only 62 major strikes, involving a total of 376,000 workers, began during 1984, compared with a previous peak of 81, with 909,000 on strike the year before. The Washington Post says experts ascribe the decrease to declining union membership, high unemployment and increased automation. They also cite more cooperative labor-management relations and increased foreign competition, which makes both sides wary of conflict.

People and Taxes, a consumer publication, says a taxpayer wrote to the Internal Revenue Service to suggest that the personal income tax return, called Form 1040, had been given that number to commemorate one of two dates in history: In 1040 B.C., the prophet Samuel gave in to the people's demands for a king, but warned that a king would insist that they pay taxes. In A.D. 1040 Lady Godiva rode nude through the streets of Coventry to protest taxes levied by her husband, the earl. Roscoe Egger, the IRS commissioner, says the mundane truth is that the number happened to be the next available in the system when Form 1040 was devised in 1913.



PITTSBURGH SHOOTOUT — Victor Balsamico, left, a police officer, is comforted by a fellow officer after he shot and killed a man with a gun who had entered an office building and wounded his own wife.

**Shorter Takes:** Four of the 50 states in the union lost population between 1980 and 1983, according to the U.S. Census Bureau. All were in the "Frost Belt" of the Middle West: Indiana, Iowa, Ohio, and, with the heaviest loss, Michigan, down 2.1 percent to 9,069,000.... Thirty-six percent of American farms had telephones in 1949, when the Rural Electrification Administration began making loans to extend phone service. According to federal documents, more than 95 percent of farms have phones today.

## Notes About People

President Reagan's entry was expected to be preserved as the Jimmy Carter National Historic Site according to The Washington Post, but not what is perhaps the most famous landmark of all, the gasoline station where Jimmy Carter's son John, now 78, discovered a dozen cartons of such papers in the attic of the family home in Plymouth, Vermont, and donated them to the public library in Northampton, Massachusetts, where Coolidge started his law practice and served as mayor for a year. Lawrence E. Winkler, the library's curator of Coolidge memorabilia, says the documents provide no major revelations.

Much of Plains, Georgia, is

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## Crisis Highlights System's Weaknesses

(Continued from Page 1)  
other institutions who had thought their money was guaranteed presented a new risk. The ripple continued to spread.

The risk had actually been there all along, but events had never called it to anybody's attention.

First, the fund was not large enough to survive the failure of the largest institution covered by its guarantees. Second, the process of trying to find a buyer for what is left of Home State highlighted the fact that, like the majority of thrift institutions across the country, it had many mortgages on its books with interest rates well below those on mortgages issued today.

If those mortgages, which are part of Home State's assets, have to be sold, their current value may be as much as \$100 million less than their face amount. As long as payments are being made on such loans, banks and savings and loans do not have to recognize such paper losses in calculating their income and net worth. However, if an institution goes under and its assets are sold, the losses do have to be acknowledged.

So, for perfectly understandable reasons, depositors have lost confidence in most of the 71 savings and loans that were not federally insured and want to get their money out. And the very act of their taking their money out, if they can, will force the institutions to close.

If every one of the savings and loans were to disappear, and depositors were to suffer even a sub-

## Kennedy's Son May Run For Massachusetts Seat

The Associated Press  
BOSTON — Edward M. Kennedy Jr., 23, the son of the Massachusetts senator, is considering running in 1986 for the congressional seat once held by his late uncle, John F. Kennedy. The Boston Globe has reported. The seat is now held by the House speaker, Thomas P. O'Neill Jr., who will retire.

The Globe said Saturday that Mr. Kennedy was planning to move to the state's 8th Congressional District from Virginia. Mr. Kennedy is a recent graduate of Vassar University in Connecticut and a spokesman for the physically disabled. His right leg was amputated because of bone cancer at the age of 12.

stantial loss, the amount of money involved is not large enough to undermine directly the nation's financial system.

Nevertheless, officials at the Federal Reserve, the Federal Home Loan Bank Board, which oversees federally chartered savings and loans, and other regulatory agencies are concerned that the crisis in confidence not spill over into other parts of the financial system.

Nearly a year ago, the regulators faced a far more serious situation when the same sort of loss of confidence threatened Continental Illinois National Bank and Trust Co. When news of large loan losses shook depositor confidence in that \$41-billion institution, the federal government was forced to bail it out.

The remaining savings and loans in Ohio, whether federally or state-chartered, have their deposits insured by the Federal Savings and Loan Insurance Corp., which ultimately can call on the U.S. Treasury for money to make good on any losses in accounts up to \$100,000.

Continental's collapse would have shaken the entire world. Therefore, the federal government stepped in to guarantee all of Continental's liabilities, from the largest deposit to the smallest bill.

Continental has survived, as a much smaller bank, after large-scale infusions of federal credit and a transfer of billions of dollars worth of problem loans from its books to those of the Federal Deposit Insurance Corp.

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## Shultz Urges 'Crackdown' To Protect Secret Data

By Robert Pear  
*New York Times Service*

WASHINGTON — The Reagan administration is preparing extensive changes in the rules and procedures for granting asylum to aliens.

Officials of the Departments of Justice and State said the proposed changes were designed to streamline the asylum process and to give the immigration authorities more flexibility in handling applications.

They said a secondary purpose was to take the asylum issue out of the "legislative arena," where it has complicated efforts to pass a comprehensive immigration bill.

Immigration lawyers said the new rules could make it more difficult for some aliens to gain asylum.

Under the Refugee Act of 1980, aliens may qualify for asylum if they have "a well-founded fear of persecution" in their homeland "on account of race, religion, nationality, membership in a particular social group, or political opinion."

An article by Mr. Gelb, published Feb. 13 by The Times, described U.S. contingency plans to deploy nuclear defense charges in some allied countries. [The article appeared Feb. 14 in the International Herald Tribune.] It noted that information about the plans had been published and discussed in those countries.

Mr. Shultz, while conceding that reports on the plans had been published abroad, told the senators that the article "has done us a considerable amount of damage."

He added that because Mr. Gelb had served in the government, in a "particularly sensitive post," his writings took on "special authority." Mr. Gelb was director of the State Department's Bureau of Politico-Military Affairs from 1977 to 1979.

"Therefore," Mr. Shultz said, "in my opinion, I think having held that post, you have a special responsibility, and I know that Mr. Gelb tries to exercise that responsibility, but still, publishing things that are harmful is hard to take."

At the same time, he described Mr. Gelb as "a person of tremendous stature, great ability," and said, "I don't want to in any way ruin him down."

After Mr. Gelb's article was published, Lieutenant General John T. Chain Jr., current director of the Bureau of Politico-Military Affairs, forbade his staff to talk to Mr. Gelb. He also ordered the removal of an official office portrait of Mr. Gelb that hung alongside those of other previous directors of the bureau.

General Chain later allowed his staff to talk to Mr. Gelb but did not replace the picture.

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## U.S. Is Preparing Tighter Rules on Asylum

By Robert Pear  
*New York Times Service*

The administration maintains that many illegal aliens from Latin America are fleeing poverty, not persecution, and do not qualify for asylum.

The new rules would simply give the State Department "notice" of all applications. Advisory opinions would no longer be required.

The new rules would specify factors justifying the denial of asylum. One would be the availability of a "safe haven" in a country through which the alien passed on the way to the United States.

The new rules say that immigration officials may deny a request for asylum if there is evidence that the alien ceased his or her flight from persecution and found "protection" in a country that signed the 1967 United Nations Protocol on the status of refugees.

The current rules say that the attorney general must deny a request for asylum if the alien has been firmly resettled in a foreign country before coming to the United States.

Under the existing rules, the immigration service must seek a formal advisory opinion from the

State Department on every asylum application. Under the proposed rules, to be issued for public comment this spring, the immigration service would simply give the State Department "notice" of all applications. Advisory opinions would no longer be required.

The new rules would omit the word "permanent," making clear that aliens could be denied asylum in the United States even if they were not permanently resettled elsewhere.

Under existing law, if aliens have a well-founded fear of persecution, they are not automatically entitled to asylum in the United States but will not be forcibly returned to the country they fled. The attorney general, working through the immigration service, has discretion to grant or deny asylum.

The new rules also clarify the standard of proof in asylum cases, rejecting some of the more liberal interpretations by federal courts.

The new rules adopt the same standard for asylum cases that the Supreme Court laid down in June in a decision dealing with deportations. The court said then that the attorney general must not deport aliens to a country where there was "a clear probability" that they would be persecuted.

## U.S. to Cut Off Farming Irrigation To Thousands of Acres in California

By Cass Peterson  
*Washington Post Service*

WASHINGTON — Edwin Meese III, in his first news conference as attorney general, has criticized school busing as a method of racial integration and rejected hiring quotas as an "improper" means seeking affirmative action.

"I think it's generally recognized

in educational as well as legal circles that school busing has had a marginal effect as far as improvement is concerned," he said Friday, "and actually in some cases has added to the deterioration of the situation."

At the same time, he described Mr. Gelb as "a person of tremen-

dous stature, great ability," and said, "I don't want to in any way ruin him down."

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## Greek Judge Fails to Win Presidency in First Round

Reuters

ATHENS — Judge Christos Sartzetakis of the Greek Supreme Court, the only candidate for the Greek presidency, failed Sunday to win first-round election in a parliamentary ballot.

Mr. Sartzetakis, 56, whose nomination by the Socialist government prompted the conservative president, Constantine Caramanlis, to resign March 10, received 178 votes, 22 fewer than the 200 required for first-round election in the 300-seat Parliament.

Prime Minister Andreas Papandreou's unexpected decision not to back Mr. Caramanlis and his announced intention to limit presidential powers under a revised constitution also prompted the resignation of the pro-Western president.

Mr. Sartzetakis is expected to fail again in a second round Saturday in which the same majority is required. A third ballot would then be held March 29, in which he would need 180 votes for election.

If Parliament fails to elect Mr. Sartzetakis, general elections will be held immediately thereafter.

Sunday's secret vote raised doubts about whether Mr. Sartzetakis, a nonpolitical figure, would be able to get enough support to succeed Mr. Caramanlis.

One hundred sixty-three deputies of Mr. Papandreou's Panhellenic Socialist Movement and 12 deputies of the pro-Moscow Communists Party were under instructions to vote for Mr. Sartzetakis, while four of 11 independents had said they would support him. The vote means either that one of the Socialists or Communists disobeyed instructions or that one of the independents changed his mind.

*Henry Kann of The New York Times reported from Athens:*

Mr. Caramanlis, who lost the governing Socialist Party's support for a second term as president a week ago, was assured the night before that the Socialists intended to nominate him, according to reliable reports.

Because of the Socialist rebuff,

### Andreotti to Visit Morocco

Reuters

RABAT — Foreign Minister Giulio Andreotti of Italy is to pay an official visit to Morocco on April 8 and 9, the Moroccan press agency MAP said Sunday.



The Associated Press  
Greece's minister of culture, Melina Mercouri, touches the shoulder of Prime Minister Andreas Papandreou as she goes to vote during Sunday's presidential election.

Mr. Caramanlis, a conservative who is Greece's senior political figure, withdrew his candidacy for re-election and resigned March 10. The dispute indicated a major shift to the left by the Socialists and further political polarization.

The next morning, Mr. Papandreou nominated Mr. Sartzetakis as the Socialists' presidential candidate, and the party's Central Committee and parliamentary caucus endorsed him unanimously. Mr. Caramanlis withdrew his candidacy in a terse statement asserting that Mr. Papandreou had urged him to run, and the next day he resigned as president, two months before the end of his term.

An Interior Ministry official reiterated Mr. Papandreou's remark to the Central Committee that Mr. Sartzetakis had not been informed beforehand of his nomination, and he declined to say whether Mr. Koutsogiorgas had visited the judge. Mr. Sartzetakis told a caller he could not talk to the press.

But Mr. Caramanlis was also reportedly told that Mr. Papandreou was certain the holdouts would be persuaded to overcome their reluctance by the next morning, when the committee was to meet, and that Mr. Caramanlis would be chosen unanimously.

Mr. Caramanlis was told that the party's members of Parliament

## Contadora Group Says It'll Resume Effort for Central America Peace

By Alan Riding  
*New York Times Service*

BRASILIA — The Contadora group of nations has announced the resumption of its Central American peace efforts after a six-month interruption marked by growing tensions in the region.

The group, comprising Mexico, Colombia, Venezuela and Panama, said Saturday it would meet with representatives of five Central American countries — Costa Rica, Nicaragua, El Salvador, Guatemala and Honduras — in Panama on April 11 and 12 in the hope of moving quickly toward a regional peace accord.

Nicaragua's president, Daniel Ortega Saavedra, who was among the foreign dignitaries attending Friday's inauguration of Brazil's new civilian government, welcomed the announcement but called again for simultaneous talks between Nicaragua and the United States.

"Without bilateral talks taking place, there is little that Contadora can achieve," he said. "Unfortunately, the United States is still closed to a dialogue on Nicaragua."

Vice President George Bush, who headed the U.S. delegation to the Brazilian inauguration, spoke briefly Friday with Mr. Ortega in a crowded Chamber of Deputies but both were reported to have reiterated official positions.

Before leaving here Saturday morning for Honduras, Mr. Bush said that he had insisted on the need for Nicaragua to return to democracy and he described as an "absurd cause" the charge that no meetings were taking place between U.S. and Nicaraguan officials.

The decision to revive the Contadora process came after a meeting here Friday night of foreign ministers from the Contadora nations and the five Central American ones. A joint communiqué said there were now "propitious conditions" for a resumption and stressed that the Central American countries had pledged their political will to give genuine momentum to the peace effort.

Colombian and Mexican officials said that, having seen the initiative undermined within the region itself, the Contadora group had demanded a strong pledge to negotiate by the Central American countries before agreeing to meet again.

The Contadora group offered a draft peace treaty in September that was immediately endorsed by Nicaragua. At the prompting of the United States, however, Honduras increased U.S. aid for fiscal 1986.

El Salvador and Costa Rica proposed a series of amendments, which Nicaragua then rejected.

A meeting scheduled for mid-February to reconcile the different positions was canceled after a dispute between Nicaragua and Costa Rica over a young Nicaraguan who was arrested after seeking asylum in the Costa Rican Embassy in Managua. Early this month, the youth was released and exiled to Bogotá, Colombia, clearing the way for new Contadora meetings.

The presence of more than 100 foreign delegations in Brasilia this weekend brought a flurry of diplomatic activity, involving not only Contadora but other regional questions.

One meeting was held to promote closer ties between the European Community and Central America. In another, Suriname's military强人, Dési Bouterse, and the Dutch foreign minister, Hans van den Broek, held the first high-level talks between their governments since December 1982, when Suriname's killing of 15 opposition leaders prompted the Netherlands to suspend all economic aid to its former colony.

■ **Bush Vows Confined Fight**

Vice President Bush told Honduran officials Saturday that the Reagan administration would "fight with everything we have" against the Nicaraguan regime, United Press International reported from Palmerola, Honduras.

U.S. officials said Washington had requested the four-hour stopover to underscore Ronald Reagan's commitment to the Honduran effort to thwart the spread of leftist revolution in Central America.

Mr. Bush met with President Roberto Suazo Córdova of Honduras for an hour at his country home in La Paz shortly after arriving from Brasilia.

"Freedom-loving people everywhere appreciate the hardships and trials Honduras has had to endure as the nation on the front-lines of freedom," Mr. Bush said later.

"Any communist power with designs against Honduras should know that the United States stands foursquare behind its democratic partner," Mr. Bush said. "We will not allow the security of Honduras to be compromised."

The Honduran government said in an official statement that Mr. Bush and Mr. Suazo "carefully analyzed the development" of current negotiations to give Honduras increased U.S. aid for fiscal 1986.

In Europe, he said, the result



The Associated Press  
Vice President George Bush of the United States, center, talks with President Daniel Ortega Saavedra of Nicaragua at the inauguration of Brazil's civilian government. At left is the U.S. assistant secretary of state for inter-American affairs, Langhorne A. Motie.

## U.S. Policy Seen Hurting NATO Unity

### Europeans Warn on Sending Troops to Central America

By Jack Nicas  
*Los Angeles Times Service*

WASHINGTON — Increasing friction between the Reagan administration and West European governments over U.S. policy in Central America could seriously weaken the North Atlantic Treaty Organization, two high-level European officials warned.

Decrying what he termed "the radical policies enunciated by Washington," Mr. Morin said that if the dream of a military solution to the crisis leads to a massive U.S. military intervention, whether in El Salvador to support a legitimate government or in Nicaragua against the Sandinista regime, the impact on Spanish public opinion will be very great. It could substantially alter the basis on which Spain is formulating a solution to the problem of its specific alliance engagement and its contribution to the defense of the West."

Both concluded that further deterioration of the Central American situation, especially if accompanied by large-scale U.S. troop involvement, could shatter NATO unity.

Mr. Morin warned that direct U.S. military intervention in Central America could prompt Spain's Socialist government to withdraw from NATO.

In Europe, he said, the result

would be to "strengthen neutralist and pacifist movements to such an extent that it could jeopardize the continued participation in NATO of some of its members, especially Spain." Although a member of NATO, Spain does not participate in its defense arrangement.

"Were Central America to attract the United States psychically, politically or militarily to the focal point of the Soviet threat and of Western security — namely Europe — the consequences for cohesion of the Atlantic alliance would be incalculable," he said.

Defense Secretary Caspar Weinberger, in an interview, knew that the Central American situation has caused strain in the Western alliance and said, "I have spent a great deal of time trying to reassure NATO allies about policies in the region."

A similar strain developed

deployment of cruise and Pershing 2 missiles in Europe, he said.

NATO stood firm and the deployments are going ahead, and I hope that there'd be the same kind of understanding we could about Latin America."

"But they're right," he said. "causes strains."

## Mexico Charges 7 In Kidnapping of U.S. Drug Agent

United Press International

MEXICO CITY — The authorities have charged six police officials and a former officer in connection with the kidnapping and murder of a U.S. drug agent, according to the attorney general's office.

A spokesman, Felipe Flores, said Saturday that two of the suspects were charged with kidnapping and homicide but not specifically the murder of Enrique Camarena Salazar, a U.S. Drug Enforcement Administration agent. All seven were charged with conspiracy to trade in narcotics.

Mr. Flores said some of the seven had confessed to being responsible for kidnapping Mr. Camarena and taking him to the home of an alleged marijuana grower.

Mr. Camarena, a Mexican-born U.S. citizen, was seized by four men on Feb. 7 near the U.S. Consulate in Guadalajara. His body was found March 6.



SIT-IN PROTEST — A miner clutched a dynamite bomb with an unlit fuse during a protest in La Paz during the general strike in Bolivia. Workers are seeking a wage increase to keep pace with an annual inflation rate of 2,700 percent. President Hernán Siles Zárate on Saturday offered workers a role in running the government and a 332-percent wage increase. The strike, which began March 8, has paralyzed the economy.

## 5 Years Without Tito: The Belgrade Predicament

By James M. Markham

New York Times Service

BELGRADE — Portraits of the great leader, dead almost five years, still hang on the official walls of this scruffy, down-at-the-heels city on the Danube. Tito's steady, omnipresent gaze is a reminder that another strong leader has not taken his place.

Among the lively intelligentsia of Belgrade, which is the capital both of multiethnic Yugoslavia and of its Serbian republic, the Croatian-born Tito is not a beloved figure.

"I like it better to have the picture and no successor," a 26-year-old philosophy student said. "Can you imagine having another Tito?"

There is substantial freedom of speech and of the press in this independent Communist nation, which, since Tito, has been ruled by a collective, rotating leadership. It is a different sort of place than its Soviet-dominated East European neighbors, but a political trial that ended last month was a reminder for some people of how ideologically close those neighbors still are.

For Yugoslavia, the physical and cultural frontiers with Western Europe are open; a million Yugoslavs work in the West and bring home ideas as well as West German Deutsche marks and Italian lire.

Yugoslav television runs U.S. programs. Foreign diplomats say it is virtually impossible to have dinner guests on Mondays, when "Dynasty" is shown.

Bookstores carry the translated works of such critics of communism as Czeslaw Milosz, a Polish exile, and Milan Kundera, a

dis of the 1960s. This is a legacy of Tito, who tried to import prosperity from the West, but left the nation with \$20 billion in debt.

Branko Horvat, a Zagreb economist, said recently in the Belgrade magazine Interview that the government should resign since it seemed unable to deal with the economic problems.

At a meeting last year of the party's Central Committee, a Macedonian member, Trpe Jakovski, said: "The links between the party and the working class have been broken."

Other speakers bemoaned the existence of nationalism-Communist alliances in Yugoslavia's six republics and two autonomous regions.

In this free-wheeling atmosphere, many people found almost grotesque a police raid in April on a Belgrade gathering of 28 dissidents and the ensuing trial of six of them on conspiracy charges. The crackdown suggested a bad case of the jitters among the Serbian authorities, who had been tolerating an open climate in Belgrade.

In face of protests from the West, Serbian officials denied responsibility. Some politicians said that they had been surprised by the arrests, which they attributed to Stane Dolanc, the Yugoslav interior minister. Others spoke of pressure from hard-liners in Croatia and Bosnia-Herzegovina.

The trial ended with three defendants being convicted of the reduced charge of "hostile propaganda" and given sentences ranging from one to two years. A fourth was acquitted and two others were

severed from the main case for separate trial. The light sentence suggested a retreat by the authorities.

"This will not satisfy the purpose of the trial, which was to intimidate intellectuals and mass media people," said Milivoj Markovic, a philosopher and rights advocate.

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"The crisis is not because opposition is strong," he said. "Because the system is weak, it is easy to find supporters."

Milivoj Djilas, a dissident, to have been the speaker at April gathering that was raided.

"After Tito, the 73-year-old Djilas said recently, 'The authorities blocked their mind. They thought Tito would live in eternity.'

Mr. Djilas portrayed Yugoslavia's predicament as a deadlock between competing nationalisms, the republics, which he described as canceling out any chances of political or economic change.

"The crisis is not because opposition is strong," he said. "Because the system is weak, it is easy to find supporters."

Beatings of prisoners appear to be common, according to so who say they were victims the severe, five of the 28 people arrested in April say they were beaten.

A Belgrade editor said after dissident trial that he could not sure whether repression or liberalization awaited Yugoslavia.



Josip Broz Tito

Czechoslovak exile. Last year George Orwell's "Nineteen Eighty-Four" was issued in a Serbo-Croatian anniversary edition.

Sevia Lukic, a Yugoslav critic, said: "We have a very dynamic literature, one of the most interesting in Europe."

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The Associated Press  
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## Maputo Seems to Have Gained Little by Pretoria Pact

By Alan Cowell  
New York Times Service

CAPE TOWN — South Africa marked the first anniversary Saturday of a peace accord with Mozambique that has given the Marxist nation little in return for helping both Africa undermine its most prominent external foe.

The agreement, called the Nkomati Accord after the border river, whose banks it was signed, committed the two ideological foes to withholding support for each other's insurgents. But the insurgency in Mozambique, which South Africa started sponsoring in 1980, and which it now says it has abandoned, has spread since the pact was signed to areas around the capital, Maputo.

Mozambique, meanwhile, faced much criticism from other black-ruled African nations for signing the accord with its white-ruled neighbor and for carrying it

out by expelling all but a token representation of the African National Congress, the most active of the exiled groups seeking the violent overthrow of white minority rule.

At a news conference in Pretoria on Saturday, Foreign Minister R.F. Botha said counterfeitors and "an international web of bankers, financiers and businessmen" were continuing to support the Mozambique insurgents, whose activities were supposed to wane after the nonaggression pact was signed in 1984.

In Maputo, the anniversary was marked by a widespread power failure, apparently the result of sabotage by the Mozambique National Resistance and timed to coincide with the anniversary. Western diplomats in Maputo said President Samora Machel of Mozambique had become increasingly bitter at South Africa's perceived

inability to halt the insurgency that has crippled his country's chances of recovering from a deep economic decline.

Shortly before the agreement was signed, Mozambican officials say, South Africa permitted thousands of trained rebels to infiltrate Mozambique with supplies of arms and ammunition. But since then, South Africa has repeatedly asserted that it is no longer supporting the rebels, who say they seek to replace Mr. Machel's government with a more democratic one. Mr. Botha said Saturday that the South African authorities were trying to halt unofficial supplies to the insurgents.

Referring to the Mozambique authorities, Mr. Botha said, "It's clear to me that they are still very suspicious that Renamo is being supplied with arms and equipment from South Africa, Malawi, even Kenya." Renamo is the acronym of the rebel movement.

Mr. Botha and Defense Minister

Magnus Malan flew to Maputo on Thursday to try to salvage the accord.

### Ex-Captives in Johannesburg

The Red Cross flew 27 prisoners freed by Angolan guerrillas to a tearful welcome in South Africa from friends and relatives. Reuters reported Saturday from Johannesburg.

The captives — 17 Filipinos, five Portuguese, three Britons and two Americans — had been seized by guerrillas of the National Union for the Total Independence of Angola, or UNITA, in raids on diamond mines in northeast Angola last year.

UNITA released them its headquarters at Jamba in southern Angola, and the International Committee of the Red Cross flew them to Johannesburg Airport. The five Portuguese were unexpectedly added to the group who were released, Red Cross officials said.



A community leader at Crossroads squatter camp in South Africa, Samuel Langa, holds the coffin of 6-month-old Amanda Faniso, who was buried Saturday, along with another infant and four adults. The families said that the infants died from inhaling tear gas during clashes with police last month at the squatter camp, near Cape Town. The others were shot.

## Hassan May Have Won Libya Gamble

### Morocco Has Moved Closer to Qadhafi and Kept U.S. Aid

By Michael Dobbs  
Washington Post Service

RABAT, Morocco — On the eve of recent events, King Hassan II of Morocco has won a high-risk political gamble: that he would be able to move closer to Libya without jeopardizing his country's close military and economic ties with the United States.

The Reagan administration was taken aback last August when Morocco, a conservative North African kingdom that traditionally has played a moderating role in Arab affairs, signed a "treaty of union" with Colonel Muammar Qadhafi's Libya, viewed by Washington as a nation that encourages international terrorism.

There was talk in Washington of punishing King Hassan by cutting American military and economic assistance to Morocco, which has been embroiled in a costly, 10-year war against guerrillas of the Polisario Front in the Western Sahara. Less than eight months later, Moroccan officials are congratulating themselves that no U.S. aid program has been adversely affected. The Reagan administration has signaled its intention to maintain good relations with Morocco by

dispatching a string of high-level emissaries to Hassan.

The United States was the only country to be represented at the annual feast of allegiance to the Moroccan throne earlier this month by three presidential envoys: Jeane J. Kirkpatrick, the chief U.S. representative to the United Nations; General Vernon A. Walters, her designated replacement; and Joseph V. Reed, the U.S. ambassador in Rabat.

The latest American gestures toward Hassan reflect both the U.S. view of the strategic importance of Morocco and the practical difficulties involved in carrying out the Reagan administration's policy of diplomatically isolating Colonel Qadhafi.

In the past year, the leaders of three West European countries allied to the United States — France, Italy and Greece — have had personal dealings with the mercurial Libyan leader.

Questioned about U.S. unhappiness with the Moroccan-Libyan treaty of union, Hassan replied sharply: "Before being a friend of the United States, I am first of all the king of Morocco."

Senior Moroccan officials argue that the main purpose of last year's

agreement with Libya was to strengthen Morocco's hand in its war against the Algerian-backed Polisario Front. Libya was once a major supplier of arms and funds to the Polisario guerrillas who have set up their own Saharan Arab Democratic Republic.

By agreeing to the treaty of union, in practice a politically loose federation that allows for economic and cultural cooperation, Hassan has managed to tilt the regional balance of power in his favor. Until last August, Algeria seemed to be succeeding in its aim of undermining Morocco by concluding alliances with Tunisia and Mauritania.

Asserting that a "misunderstanding" with the United States over the treaty with Libya had been cleared up, Hassan said that "anybody can see that in the application of this agreement, neither Libya nor Morocco has given up their policies nor renounced their previous friendships."

Some political analysts in Rabat said the shock that Hassan produced in Washington by failing to give the United States warning of his opening toward Libya could have worked to his advantage here. It was seen as a way of demonstrating that, although his government is closely identified with the West, he is in no way an American puppet.

Moroccan officials made clear that the king intends to go through with the second stage of the treaty of union that includes the setting up of a joint secretariat and parliament. Hassan is expected to visit the Libyan capital, Tripoli, within the next few weeks.

Under a joint military protocol negotiated in 1982, the United States has the right to use two Moroccan air bases for its Rapid Deployment Force in the event of an international crisis such as a sudden flare-up in the Gulf. Moroccan beaches are used for joint military exercises involving both Moroccan troops and U.S. forces stationed in Europe.

Opponents last put him on the defensive with a "spiritual pollution campaign" in the fall of 1983, stirring zealotry that had vigilantes searching intellectuals' homes for foreign books and stopping women in the street to break the heels off their Western-style shoes.

Deng Xiaoping brought the campaign to a halt after a few months, and Deng Liqun, the party propagandist behind it, virtually disappeared. Last week, he was back in circulation, telling young people to take the crackdown seriously.

Not long before, a prominent leftist in the Politburo, Hu Qiaomu, was in Fujian Province telling workers that it was wrong to be seized with the spirit of "getting rich," which is precisely what Deng Xiaoping has urged.

Occupying a strategic position controlling the southern approach to the Strait of Gibraltar, Morocco has opened its ports to visits by the U.S. fleet.

King Hassan II of Morocco, front right, visiting Morocco's Saharan defensive wall near Bou Craa for the first time.



The Associated Press

## China Becomes Cautious In Its Policy on Change

By John F. Burns  
New York Times Service

BEIJING — After one of the most ambitious years of change China has seen since 1949, an air of caution has begun to set in, suggesting renewed opposition to the drive to free the nation's life from ideological rigidity.

In the past week, Deng Xiaoping, the 80-year-old pragmatist who has turned much of Mao Zedong's legacy upside down, has pulled in his horns. In a speech submitted earlier this month he called for a general attack on "capitalist thinking" and reminded people that whatever form the current economic changes might take, "the ultimate goal is to implement communism."

Abandoning the almost breezy tone he adopted on the matter five months ago, when he said that if some "capitalist stuff" got into the country, it could do little harm, Mr. Deng said at a conference on scientific work that the time for idle speeches was over.

"There are people who fear that China could become capitalist," he said. "This fear is not without foundation. We must address their concern in deeds, not just empty talk."

Since then, there have been speeches by his associates on a similar theme. In each case, the content has been what Bo Yibo, one of Mr. Deng's closest allies, called "the west wind" — a wave of corruption that has accompanied the economic changes and was implicitly acknowledged by Mr. Deng in his speech as a threat to his program of relaxation.

The Chinese leaders insist that they will stand by the economic changes, which emphasize local initiative, some free enterprise and foreign investment. But signs of a

pullback in other areas have persuaded Western diplomats that the Deng group wants to pre-empt any opposition that may coalesce on a broad attack on the leadership and its policies.

If this interpretation is correct, there could be a chill as Mr. Deng fights to keep ahead of a "leftist" faction in the ruling Politburo that has not been at ease with his open-door policy.

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King Hassan II of Morocco, front right, visiting Morocco's Saharan defensive

# INTERNATIONAL HERALD TRIBUNE

Published With The New York Times and The Washington Post

## The 'New Soviet Man'

Mikhail Sergeyevich Gorbachev vows to get the Soviet Union moving again, even to produce a "profound transformation" by the year 2000. A bare five years after becoming the Politburo's youngest member, he is its undisputed leader. He promises to redesign the economy and "the entire system of social relations" so as "to enter the new millennium as a great and flourishing state." Better learn the name; it's pronounced Gore-bal-CHAWFF.

In its ignorance about him, the world dwells on his age; he just turned 54. It is the only firm fact that even the Soviet people possess. How did this Stavropol party boy ascend to Moscow in a single leap in 1978? And how, while supervising agriculture in its most disastrous years, did he persuade the party's fading old men to leave him in charge of everything? The tale implies extraordinary gifts.

Mr. Gorbachev also dwells on his age. He

knows that the Soviet people, who can vote only by registering their morale, yearn to be led out of stagnation. To a despaired work force, he exudes energy and purpose. To a calcified bureaucracy, he emphasizes his staying power. To disillusioned Marxists, he pledges to revive the Soviet model, "not by force of arms but by force of example."

His age matters because he has the time to amass enormous power and to dominate the Soviet world for the rest of the century. Age matters in another sense: Mikhail Gorba-

chev was a teenager in World War II and a law student when Stalin's terror ended. Neither disaster touched his career. In his formative years, the Soviet pendulum swung from Nikita Khrushchev's impulsive but creative assault on backwardness to Leonid Brezhnev's stable but stony oligarchy.

Presumably that swing taught two great lessons: first, that the Soviet Union is a remarkably rich and resilient society, capable of enormous feats of survival and recovery. But second, that the centralized Soviet system keeps oscillating between an overbearing one-man rule and a suffocating collective that is dominated by massive bureaucracies.

Mr. Gorbachev's code words for the successful growth of the past and the imminent demands of the future are "extensive" and "intensive" development. By extensive development he means the vast investments of land, capital and labor in extravagant amounts to boost production of grain and steel, to eradi-

cate illiteracy and major disease, to urbanize the nation and make it a military superpower. Though wasteful and often cruel, these methods brought dramatic results. But no longer.

For the post-industrial era, Mr. Gorbachev wants "intensive" development, meaning a burst of creativity shaped by modern management, science and technology. For despite huge annual investments, productivity and living standards have been declining. Farmers cannot feed the cities, or even their own livestock. Civilian industry cannot meet the demand for decent clothes and groceries. Every factory bonus only increases the number of rubles chasing imported shoes or refrigerators.

The Soviet citizen, generally submissive to paternalistic government, has had only one way to rebel: by investing ever more time and money in private or illegal transactions.

Peasants trade to open markets with the yield of their private plots. A fifth of the nation's crops and a third of its livestock come from that 3 percent of the land. City folks steal away from work to hunt necessities in the black market. Cooking and shopping are sheer drudgery for working women. And after a now-exhausted government effort to build low-cost housing, one family in five still must share a kitchen and bath with another. Even some Soviet analysts now dare to blame the system. It lacks free-market measures for good and labor and thus destroys incentives, initiative and flexibility. And central planning, though it preserves political control, cannot cope with the tastes of 275 million consumers.

Mr. Gorbachev wants "questioning and creativity, sensitivity to new phenomena and processes, the decisive eradication of formalism, red tape and idle talk." But can he permit decision-making to pass out of the party's control? Does he dare reduce excessive food subsidies and military budgets to invest in his high-technology vision? Can he take from the privileged elite to invigorate the masses?

The Bolsheviks born before the 1917 Revolution set out to provide so well that they would produce a "new Soviet man" cheerfully serving society and needing little government to coerce or inspire him. Now the boldest new Soviet man they could find inherits an authoritarian, sullen and woefully underdeveloped society. The vision and the system are no longer compatible. Which will be served?

— THE NEW YORK TIMES.

## How About a Tariff?

As the U.S. Congress desperately tries to bring the budget deficit down, the delectable idea of taxing foreigners begins to shimmer on the horizon. How to tax them? By collecting large duties on the goods they sell to Americans. Imports last year came to \$340 billion, and a tax of, say, 20 percent would raise a swinging sum of money. As the case for this gigantic tariff goes, the foreigners selling these goods are making high profits because of the dollar's high exchange rate, and thus would be glad to absorb the tariff without raising their prices. An inviting proposition, no?

No. This is a poisonous idea that promises real damage to the American economy. But it is seductive, and it is beginning to circulate widely in Washington. In response, the Institute for International Economics convened a group of politicians and economists recently to examine the proposal. One conclusion that emerged was that the consequences of a high U.S. tariff would be extremely unpredictable. The costs, and where they might actually lie, cannot be calculated reliably.

As the proposal is now circulating, with no very clear sponsorship, it calls for a tax on imports at 20 percent for one year, fading away to zero over the following two years. The logic is that the temporary character of the tax would induce foreigners to pay it rather than

passing it on to their American customers. But as logic goes, that is pretty poor. If the tariff were understood by everyone to be temporary, no one would have any reason to adjust to it. After three years the country would be back where it began, with U.S. trade as far out of balance as ever, the revenues gone, and the budget deficits still gaping.

Applying the tariff indiscriminately to all imports would be, in any case, impossible. It would be a wanton act, amounting to a declaration of economic war, to levy it on goods coming from Canada and Mexico, whose economies are deeply interwoven with the U.S. economy. It would be unconscionable to levy it on developing countries. For the best of reasons the list of exemptions would have to be long, and it would grow rapidly.

If a temporary tariff is a delusion, how about a permanent tariff? That points to a path the United States has traveled before. When Franklin D. Roosevelt was running for president in 1932, he denounced the Smoot-Hawley Tariff of 1930 as a major contributor to the Depression. He was right about that. Current developments keep reminding one that there is now a generation of politicians who do not remember the Depression and how the world fell into it.

— THE WASHINGTON POST.

## Other Opinion

### The Enduring Soviet System

With Mr. Gorbachev, another type of leader rises to the top — cultured, more disposed to accept change, more open to the world. But it matters little. Mr. Chernenko was barely seen for almost a year, but the war in Afghanistan continued, worsened even, and the deployment of SS-20 missiles went on uninterrupted. At the top of the Soviet Union is a new man, but the Soviet system remains.

— Guer van Antwerpen (Antwerp).

### Papandreu's High-Wire Act

So far, [Andreas] Papandreu's bark has proved worse than his bite. The Greek prime

— The Los Angeles Times.

### FROM OUR MARCH 18 PAGES, 75 AND 50 YEARS AGO

**1910:** Roosevelt Praises a New Sudan KHARTOUM, Sudan — In a speech at the Sudan Club [on March 16], former President Theodore Roosevelt paid a warm tribute to the work of British officials in the Sudan. Nothing on his African trip, he said, had impressed him so much as the marvelous change in the Nile Provinces during the last twelve years. Great Britain, by undertaking the task of civilizing a country laid waste by a tyranny, had proved itself true to her great imperial traditions. No country was fit to be called great which hesitated to do work for mankind. He referred to his own efforts regarding the Panama Canal and spoke humorously of the opposition to him when he started on his trip and when Wall Street hoped that "every lion might do its duty," but said he had come through safe.

**1935:** Hitler Reinstates Conscription BERLIN — For the first time since 1914, the pre-war military pomp of Germany was reviewed in the square in front of the former Kaiser's palace [on March 17] when Adolf Hitler held a review of all the units of the Reich army that he has once more put on a basis of universal compulsory military service. It was a double ceremony, Nazi Germany observing a day of mourning for 2,000,000 war dead, as well as a day of rejoicing over the rebirth of the old military system. At a memorial service, General von Blomberg, Minister of War, repudiated the charge that Germany was animated by aggressive motives in restoring conscription. "We Germans," he said, "need no revenge. Europe has become too small for a battlefield for a second World War."

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## Papandreu: Substance Behind His Shadow Play

By Panayote E. Dimitras

**N**EW YORK — The resignation last week of Greece's president, Constantine Caramanlis, after he had, in effect, been pushed out of office by Prime Minister Andreas Papandreu, raises troubling questions about the political future of Greece.

Many Americans are confused and unsettled by Mr. Papandreu's anti-Western rhetoric. What they do not understand is that he is — and has to be — a skillful tightrope walker.

Greece, dependent for its survival on military aid and private investment from the West, must adopt a practical, Western-oriented policy. Yet Athens must pursue such cooperation cautiously as not to stir up deep currents of anti-Western opinion among the Greek people.

The Papandreu line is not mere sloganizing but reflects genuine and widely held neutralist beliefs that cannot simply be ignored. Unless addressed quickly, and with understanding, they could pull Greece out of the Western camp.

A series of public opinion polls taken by the Greek firm Eurodin from 1982 to 1984 show Greek public opinion to be deeply hostile to the West. Only one-third of respondents wanted Greece to be closely associated with Western Europe or to continue as a full member of the European Community or to improve relations with the United States. Only about one-fourth approved of full membership in the North Atlantic Treaty Organization or supported keeping U.S. bases in Greece.

Only one-fourth held a favorable view of the

rule of fading 70-year-olds. Now he may be seen as a man who is rather old for his job, faced by a man of appropriate years.

But there is more. Just a few days ago, the administration appeared — to itself, certainly — to be in a position of hard-won and unprecedented advantage. Technologically, economically and politically, it was on a roll, entering a critical forum — the Geneva talks — at a moment when the Soviet Union was lagging, though far from crippled, in all those categories. In nearly 20 years, Washington had not come up to a negotiation with which the rule of fading 70-year-olds. Now he may be seen as a man who is rather old for his job, faced by a man of appropriate years.

Broadly, its choice was whether to set the evident American advantage in strategic concrete, with an agreement if possible, without one if necessary, or whether to throttle back a bit and offer Moscow an arrangement that, if it "took," would reflect a certain regard but agreed parity and would head in the direction of a general settling down. The administration's deter-

nation to push "star wars" to the hilt seemed to point to the first choice.

If there were reason to question the administration's approach earlier, there is further reason now that Mr. Gorbachev has arrived. Any American inclination to take advantage of Soviet troubles needs to be measured against the possibility that Moscow's troubles may not be that disabling.

In the 1970s, Arnold Horelick observed, the United States was distract,

and this produced an American backlash: Ronald Reagan.

It could happen in reverse, he warns, adding: "Don't kick a superpower when it is down." With the measure of change now possible in Moscow, that warning must be updated a bit: Don't kick a superpower when it may be getting up.

I do not see that the Reagan administration has yet come to this sort of review. But it does seem to me that Mr. Gorbachev's promotion poses to Washington.

The Washington Post.

ful in foreign policy than in any other field — despite the fact that they have not fulfilled a single one of their anti-Western promises to withdraw from NATO and the European Community or to remove U.S. bases and nuclear weapons from Greece.

The subject of American bases has long been a particularly contentious issue. Yet despite his original promises, Mr. Papandreu has not set a timetable for their withdrawal. He has not "asked for the possibility of annual review or termination." Nor has the United States had to submit to his demands for Greek security — particularly the demand that Washington give Athens the same amount of arms it gives Ankara.

Mr. Papandreu does behave like the prodigal son of the West. This may not, however, be as much of a problem as it seems. Certainly, it is better than the alternative (the only one open to him so long as he wants the support of the public and lacks the means to re-educate it): a total break with the West.

The State Department and the European foreign ministries thus have little choice but to understand and acquiesce in Mr. Papandreu's shadow play. At the same time, they should make every possible effort, in cooperation with the moderates in his government, to minimize the estrangement of this "prodigal son."

Against this background, Mr. Papandreu and his party have excelled as tightrope walkers. Three years after they came to power, in 1981, the Greek public considered them more successful than the previous government.

The writer is a director of Eurodin, a polling firm in Athens. This article was adapted for The New York Times from Foreign Policy.

## LETTERS TO THE EDITOR

### Not Just Swift Wit

I hold membership in the Oxford Union, where I attended the recent debate between the Reverend Jerry Falwell and the prime minister of New Zealand, David Lange. I must protest Barton Gelman's misleading account of the debate ("Long Outscored at Oxford," March 4) on whether nuclear arms are morally indefensible.

The debate, though punctuated with frequent verbal battles from both sides in the contest, did not, as Mr. Gelman claims, turn on "swiftness of wit" but rather on serious points received with serious attention. The audience did not frivolously belittle Mr. Falwell for his "earnest anti-communism." In fact, no speaker sought to deny the superior

ity of Western values or the right to defend ourselves against Soviet aggression. Students decried Mr. Falwell precisely because he attempted to make those propositions the issue at hand, skirting the morality of defense through the threat of possible world destruction.

BRUCE L. MURRAY.

Oxford, England

Punts and Spuds

Regarding "In Ireland, Twilight of the Spuds" (Weekend, Feb. 15):

Fred Ferretti's excellent description of champ, boxtie and other delights of Irish haute cuisine made my mouth water and nostalgic tears appear in my eyes.

However, I misled in suggesting

that such a dish would, in the Crown

Bar in Belfast, not cost more than an Irish pound or two. The Crown Bar, as its name suggests, is situated in British Northern Ireland, where Irish pounds are not legal tender.

This is not for any political reason,

but simply because the Irish "punt,"

having abandoned its parity with the

pound sterling, has sunk to 75 per-

cent of its former value. Dubliners no longer accept English pounds, and

Belfasters no longer take punts, and

more's the pity.

It should be mentioned that the

Crown is one of the few pubs in

Ireland to have maintained its

"sausages" — private booths with bell-

push waiter service, originally sig-

ned so that executives could dis-

## BUSINESS/FINANCE

NDAY, MARCH 18, 1985

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## EUROBONDS

## Mismatched-Coupon FRNs Dominate a Busy Market

By CARL GEWIRTZ  
*International Herald Tribune*

**A**RIS — A whopping \$2.4 billion worth of floating-rate notes were launched in the Eurobond market last week. More than half were based on the mismatch of coupon settings, which offers investors ephemeral large profits if thereby enables issuers to establish new optical lows in growing costs.

Bangkok Bank, Banque Bruxelles Lambert, Banque Nationale de Paris and Malaysia marketed \$1.1 billion bearing no margin to the interbank rate. The coupons of Brussels Lambert and IP will be set at the London interbank bid rate, or Libid, which is 1/4 point below the London interbank offered rate, or libor; Malaysia's is set at the

rate of the bid-offered rate (Limean), and Bangkok's is set at Libor — re-

cord low terms for these bor-

rowers. BNP, for example,

paid 4 1/4 points over Li-

ban while Malaysia previ-

ously paid 1/4 point over Li-

ban. The Japanese companies

are also setting their coupons at 16 point below Libid — the

lowest coupons yet seen on

FRNs and a far cry from the

point premium over Libor

at until late 1983 was the

market standard.

Currently, even the DNC

and Swedish notes look at-

tractive thanks to the histori-

cally wide spread of some 100 basis points (or 1 percentage point)

currently prevailing between one- and six-month interbank rates.

The mismatch formula allows investors to capture the profit to

be made from this differential as the six-month coupon on the

notes is reset monthly.

Thus, an institution borrowing funds at the one-month offered rate of 9% percent to finance the purchase of the notes would earn 1 1/16 percent on the DNC or Swedish paper. (The profit of 1/16 point, or 93.75 basis points, would be reduced by some 20 basis points resulting from the fact that the borrowing costs are ad monthly while the income is received semiannually.)

Of course only banks or institutional investors are capable of borrowing at the interbank rate — a fact which serves to highlight the total dominance of the market by these professional investors and the near disappearance of retail customers.

FRNs are the traditional "safe harbor" investors seek when the interest-rate outlook is as uncertain — as it currently is — and the mismatch formula, which currently produces such big profits, is a dream come true for banks which are desperate to increase profits, earnings and their capital base.

Institutional investors could always engage in mismatching securities on assets and liabilities. While prudent management could restrict how far trading deals could go in this direction, the mismatched FRN removes some — although certainly not all — of the inherent risk.

Traditionally, the major danger was that if short-term rates suddenly soared, the one-month cost of funds could have exceeded the income earned from a coupon tied to the six-month rate. The mismatch formula of monthly setting of six-month coupons raises this danger, so that as rates rise the cost of funding and the income earned climb more or less in tandem.

But two risks remain: the spread between the one- and six-month rate could disappear, totally erasing the mismatched profits; or, even worse, the normal yield curve (which has the shortest-term funds the cheapest) could invert and one-month financing costs could exceed even the monthly reset six-month rate. (The very first mismatched notes covered this risk by providing the coupon would be set at the highest rate, but that protection is no longer offered.)

Inversion is rare, a generally short-lived phenomenon associated with financial crisis.

However, the spread between one and six-month rates — currently so attractive — should be a constant concern as it is volatile.

Data provided by Salomon Brothers shows that over the past five years, the spread has ranged from a high of 200 basis points to a negative low of minus 369 basis points (a period of inversion in 1980) and has averaged 33 basis points. In other words, the current 100 basis point spread looks suspect.

Nevertheless, new issues are launched and gobbled up based

(Continued on Page 11, Col. 1)

## Last Week's Markets

All figures are as of close of trading Friday

## Stock Indexes

United States

Last Wk.

Prev.Wk.

% Chg.

Indus. 1,267.79

1,269.64

+1.72

U.S. 147.00

147.77

+0.57

S &amp; P 120 172.44

172.58

+1.55

S &amp; P 500 174.53

175.08

+0.42

YSE Co. 102.45

103.81

+1.31

All New York Stock Ex-

changes

Total

TSE 100 1,308.50

1,284.70

+1.45

TSE 200 1,200.50

985.40

+1.53

Hong Kong

1,331.76

1,351.27

-4.47

Dax

12,461.03

12,475.53

+1.00

West Germany

1,214.00

1,202.10

+0.91

All U.S. figures from Jones, Cicali &amp; Co., London.

Revised and updated from Cicali &amp; Co., London.

## Money Rates

United States

Last Wk.

Prev.Wk.

% Chg.

Discount rate

8

8

Federal funds rate

8.5%

8.5%

Prime rate

10 1/2

10 1/2

Japan

—

—

Discount

5

5

Call money

6%<sup>a</sup>

6%

60-day interbank

6.5%

6.35

Lombard

—

Overnight

6.00

6.05

1-month interbank

6.00

6.35

British

—

Bank base rate

14

14

Call money

14/4

14/3/16

3-month interbank

13 1/17

13 1/16

Dollar

Last Wk.

Prev.Wk.

% Chg.

Bank for International Settlements

154.70

155.40

+0.45

Gold

London sum. fix. £

234.03

231.00

+1.03

Revised and updated from Cicali &amp; Co., London.

## Currency Rates

Official fixings for Amsterdam, Brussels, Frankfurt, Milan, Paris, New York rates at P.M.

Source: The Associated Press.

\$ 1.00 = 1,269.64

£ 1.00 = 147.77

DM 1.00 = 172.44

F.F. 1.00 = 234.03

Yen 1.00 = 155.40

Swiss 1.00 = 1.2021

Australian 1.00 = 1.2021

Canadian 1.00 = 1.2021

Belgian fl. franc 1.00 = 1.2021

Danish 1.00 = 1.2021

Swiss franc 1.00 = 1.2021

Norwegian krone 1.00 = 1.2021

Portuguese escudo 1.00 = 1.2021

Swiss franc 1.00 = 1.2021

West. Yen 1.00 = 1.2021

Other 1.00 = 1.2021

Official fixings for Amsterdam, Brussels, Frankfurt, Milan, Paris, New York rates at P.M.

Source: The Associated Press.

\$ 1.00 = 1.2021

£ 1.00 = 1.2021

DM 1.00 = 1.2021

F.F. 1.00 = 1.2021

Yen 1.00 = 1.2021

Swiss 1.00 = 1.2021

Australian 1.00 = 1.2021

Canadian 1.00 = 1.2021

Belgian fl. franc 1.00 = 1.2021

Danish 1.00 = 1.2021

Swiss franc 1.00 = 1.2021

Norwegian krone 1.00 = 1.2021

Portuguese escudo 1.00 = 1.2021

Swiss franc 1.00 = 1.2021

West. Yen 1.00 = 1.2021

Other 1.00 = 1.2021

Official fixings for Amsterdam, Brussels, Frankfurt, Milan, Paris, New York rates at P.M.

Source: The Associated Press.

\$ 1.00 = 1.2021

£ 1.00 = 1.2021

DM 1.00 = 1.2021



## International Bond Prices - Week of March 14

**Provided by Credit Suisse First Boston Securities, London, Tel.: 01-623-1277**  
*Prices may vary according to market conditions and other factors.*

(Continued on Page 10)

A black and white photograph of a large, modern building complex with multiple wings and glass windows, identified as the Sheraton Hotel in Beijing.

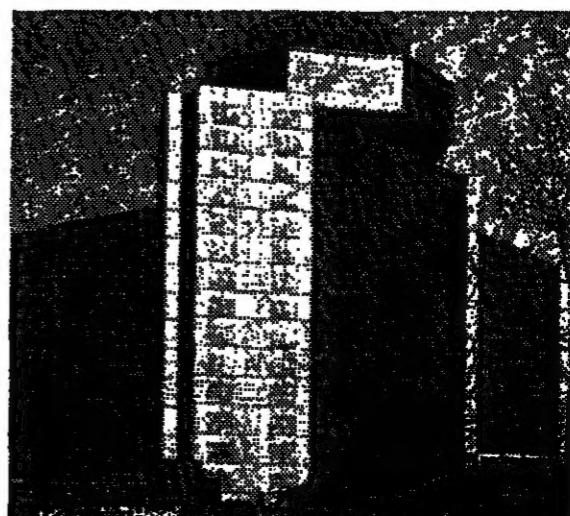
**In the heart of Beijing, the capital of the People's Republic of China,  
the Great Wall Sheraton Hotel joins the expanding world of Sheraton.**

In 1984, Sheraton opened more hotels around the globe than any other hotel corporation.

The Great Wall Sheraton is Beijing's tallest building. 1007 rooms and suites. Complete fitness facilities. A heated pool, jogging track, gymnasium and tennis. A choice of five restaurants with classic French to traditional Szechuan to 24-hour coffee shop dining.

Come to Sheraton. Come to Beijing.

FOR RESERVATIONS CALL YOUR  
TRAVEL PLANNER OR SHERATON IN YOUR CITY.



# The Great Wall Sheraton Hotel Beijing

SHERATON HOTELS, INNS & RESORTS WORLDWIDE  
NORTH DONGHUAN ROAD, BEIJING PEOPLE'S REPUBLIC OF CHINA TELEPHONE: 505566 TELEX: 20045 GWHR LCN

The hospitality people of **ITT**



## New Eurobond Issues

Issuer	Amount (millions)	Maturity	Coupons %	Price and week	Terms
<b>CATING RATE NOTES</b>					
Astropistas del Moren	\$175	1995	1/16	100	99.55
astrum					Over 6-month Libor. Callable at par in 1986. Fees 0.35%. \$125 million issued now and \$50 million reserved for a 6-month tap. Denominations \$10,000.
ingkok Bank Ltd	\$100	2000	libor	100	99.50
zymann					Interest pegged to offered rate for 6-month Eurodollar, set monthly. Callable at par in 1988 and redeemable at par in 1995 and 1997. Fees 0.35%. Denominations \$10,000.
ique Brussels	\$100	1993	ibid	100	99.90
embert Int'l					Interest pegged to bid rate for 6-month Eurodollar, set monthly. Callable at par in 1987. Fees 0.35%. Denominations \$10,000.
ique Nationale de	\$300	2005	ibid	100	99.73
arts					Interest pegged to bid rate for 6-month Eurodollar, set monthly. Callable at par in 1987. Fees 0.45%.
an Norska	\$150	1991	—	100	99.74
reditbank					Below 6-month Libor. Callable at par in 1986. Fees 0.28%. Denominations \$10,000.
oland	\$100	1990	0.60	100	99.75
					Over money market equivalent yield for 6-month U.S. Treasury bills, set monthly, starting with the April 22 auction. Callable at par in 1987. Fees 0.30%. Denominations \$10,000.
aysia	\$600	2015	ibid	100	99.45
					Interest pegged to average of bid and offered rates for 6-month Eurodollar, set monthly. Redemable at par in 2000, 2005 and 2010 end callable at par in 1988. Fees 0.47%. Denominations \$10,000.
ational Bank of	\$100	1995	%	100	99.80
modo					Over 3-month Libor for the first 2 years and 3/16 over thereafter. Maximum coupon of 12% in first 2 years only and minimum of 5.9% throughout. Callable at par in 1988. Fees 0.30%. Denominations \$10,000.
weden	\$500	2005	—	100	99.77
					Below 6-month Libor, set monthly. Callable at par in 1987 and redeemable at par in 1992, 1995 and 2000. Fees 0.35%. Denominations \$10,000.
ells Fargo	\$200	2000	%	100	99.60
					Over 3-month Libor. Callable at par in 1987. Fees 0.43%.
Nl Int'l Bank	ECU 135	1992	%	100	99.60
					Over 3-month Libor. Callable at par in 1986. Fees 0.70%. Denominations 10,000 each.
<b>DEED-COUPON</b>					
re Oesterreichische	\$100	1992	12	100	97.63
anderbank					Noncallable.
ish Petroleum	£ 50	1992	10%	99%	97.50
capital					Noncallable.
rivalbanken	£ 20	1992	11%	100	—
					Callable at 10% in 1990.
tering Drug Capital	£ 30	1990	10%	100	98.25
					Noncallable.
World Bank	£ 100	1995	11%	99%	97.50
					Noncallable.
legal Finance	ECU 75	1995	10%	100	—
					Callable at 10% in 1991.
ell Canada	CS 125	1997	12%	100	97.50
					Callable at 10% in 1992.
casse Centrale	CS 50	1990	12%	100	98.13
lesjardins Québec					Noncallable.
Montreal Transport	CS 20	1992	12%	100	97.75
Commission					Noncallable.
GH Mortgage Bank	DK 50	1990	8%	100	—
					Noncallable.
DK	DK 250	1995	12	99	98.88
					Noncallable. Purchase fund to start in 1985 to produce an 8.1-yr average rate.
Jordic Investment	DK 200	1990	12	100	—
bank					
oles	Aus 25	1990	13%	100	98.50
					Noncallable.
Junior Olympic	NZ 25	1990	15%	100	—
					Noncallable.
ion Breweries	NZ 25	1991	15%	99%	—
					Redeemable at par in 1989.
ion Breweries	NZ 25	1992	15%	100	—
					Redeemable at par in 1990.
<b>QUOTATION-LINKED</b>					
Lockbury-Schweppes	\$ 80	2000	8	100	99.13
					Callable at 10% in 1987. Convertible after Jan. 1986 at a 10.75% premium and at \$1,081 per share.
Citizen Watch	\$ 50	2000	3	100	96.50
					Callable at 10% in 1990. Convertible at \$95 per share and at \$92.25 per share.
Iapan Aviation	\$ 40	2000	open	100	—
Electronics Industry					Semiannual coupon indicated at 3%. Callable at 104 in 1988. Convertible at an expected 3% premium. Terms to be set March 19.
it Paul Companies	\$100	2000	7%	100	99
					Semiannual. Callable at 105 in 1990 and redeemable at 115 in 1991 for 10.14% yield. Convertible at \$97.40 a share.
oshiba Ceramics	\$ 50	2000	open	100	—
					Semiannual coupon indicated at 3%. Callable at 104 in 1988. Convertible at an expected 3% premium. Terms to be set March 18.
dalishipon	DM 60	1990	open	100	96
					Coupon indicated at 28%. Each 5,000-mark bond has one warrant exercisable into shares of an expected 25% premium. Term to be set March 19.

## Mismatched Coupons Are Being Widely Used

(Continued from Page 7)

surely on the transitorily large read.

Many analysts are concerned about what happens to these low-no-margin notes when the yield read narrows or collapses, putting institutional holders with little or no income over their borrowing costs. The fear is that mismatched paper will then be dumped, making prices of such notes much more vulnerable than additional FRNs whose fixed dates hold an assured profit over stated financing costs.

Price stability resulting from the regular resetting of coupons to prevailing market conditions has traditionally been one of the major attractions of FRNs. With volatility a potential danger, the formerly conservative purchasers of FRNs (who wanted short-dated, creditable instruments that carried virtually no capital risk) will now presumably be driven to buy notes or Euro commercial paper.

For borrowers, as shown earlier, a mismatch formula is considered to offer great savings.

But a study by the Bank of America disputes this. Its data shows that over the past five years six-month Libor has averaged 5.3 percent, six-month Libor 6.5 percent and six-month Libor fixed monthly 10.8 percent. The inclusion is that a borrower could save 27 basis points by pegging its FRN coupon to the one-month rate rather than the six-month rate set monthly and 12 basis points by using the six-month rate set semi-annually.

The BoA data does not agree with the Salomon Brothers figures, which show an average spread between the one- and six-month rates 33 basis points, but the wider discrepancy further validates the rationale of the analysis.)

Taking the apparently low-cost NC and Swedish issues, the borrowers saved 6.3 basis points by pegging the notes at 1/16 point be-

low six-month Libor set monthly. But based on the historical data, they will be paying some 20 basis points more if they had set the coupon at one-month Libor.

Obviously, it is questionable whether notes priced at no margin over the one-month bid rate would have attracted investors.

But using the BoA data, Wells Fargo, which is no match for Sweden in the esteem of investors, will be paying only a scant five basis points more for its money than Sweden (excluding the difference in front-end fees) by shunning the mismatch craze and offering \$200 million of classically structured notes paying 1/4 point over one-month Libor.

By late afternoon, the three-month Treasury bill was bid at 8.43

**U.S. CREDIT MARKETS**

percent, down about 1/4 percentage point from 8.79 percent a day earlier. The six-month issue was down 1/4 percentage point, to 8.95 percent.

"A lot of the drop in bill rates had to do with people running for cover," said Walker C. Tompkins, vice president of the Provident Institutional Management Corp., an investment advisory firm in Wilmington, Delaware.

Two other FRNs were noteworthy: National Bank of Canada's \$100 million because it was a disaster with its first two-year maximum coupon of 12 percent and Finland's \$100 million of mismatch based on a six-month U.S. Treasury bill rate which will be set monthly.

The Canadian issue pays a margin of 1/4 point over three-month Libor for the first two years while the maximum ceiling is in effect. During the remaining eight years there is no maximum, but the margin is halved to 3/16 point over Libor. Underwriters said their long-standing relations with the borrower dictated their participation, but that otherwise they would not have touched the deal.

They said the end-week price, a respectable discount of 20 basis points (equal to the full front-end fees), did not reflect the total absence of demand.

The other issue which bankers referred to as "the joke of the week" was Oesterreichische Landesbank's \$100 million of seven-year bonds offered at par bearing a coupon of 12 percent. It opened trading at a discount of 24 points

reflecting the general distress for fixed-coupon dollar paper as well as the specific rejection of the terms which were regarded as inadequate.

A new sector was opened last week with the launch of the first Eurobond issues denominated in Danish kroner — 250 million for the European Investment Bank (increased from an initial 200 million) and 200 million for the Nordic In-

vestment Bank.

emena, ADS in Project

Reuters

MUNICH — Siemens AG, the German electronics giant, said Friday that it has agreed to jointly develop a computerized air register system with ADS, one Europe's leading makers of the kits. ADS is a wholly owned subsidiary of Britain's BTR PLC.

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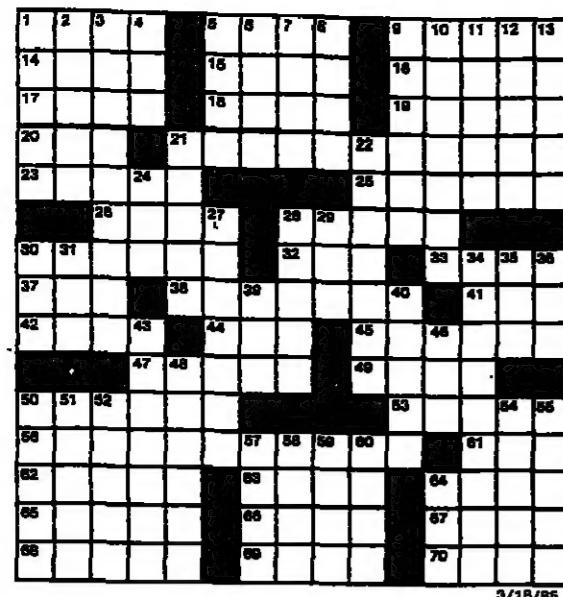
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**ACROSS**

- 1 Middling
- 5 Ancient
- 9 Impressionist painter: 1834-1917
- 14 Waiter's concern
- 15 Do roadwork
- 16 Reflection
- 17 Mad!
- 18 Some
- 19 Conform; adapt.
- 20 Grazed
- 21 Innate generosity
- 22 Title for Jacques
- 23 Laureate's output
- 24 Faculties
- 25 "Tell me — is fancy bred": Shak.
- 26 Former Japanese V.I.P.
- 27 "— Miss Brooks"
- 28 Torné specialty
- 29 Seed-bearing spike
- 30 Historic U.S. river
- 41 Falsehood
- 42 Little one
- 44 Compressed mass
- 45 Pepper of Fla.
- 47 Flock members
- 48 Arlington vault
- 50 Stand in the way of
- 52 Orchard pest
- 53 "A Chorus Line" showstopper
- 54 Organic compound
- 55 Part of a foot
- 56 Actor Moses from St. Louis
- 57 Parisian sight
- 58 May Whirly, e.g.
- 59 Manipulates
- 60 Jogs
- 61 Yet again
- 62 Nothing more than
- 63 Disagree
- 64 expatriates
- 65 Toledo tabbies
- 66 Limber
- 67 Transmits
- 68 All hot and bothered
- 69 Hand it up
- 70 Winter
- 71 "Emulate a bee
- 72 Coterie
- 73 Treat for Trigger
- 74 Meeting place for Mets
- 75 Succor
- 76 Pro-shop item
- 77 Reckoning
- 78 Outer garment
- 79 Proper sphere
- 80 Elec. unit
- 81 Dotes on
- 82 That is: Lat.
- 83 Harpagon, for instance
- 84 Place for a barbecue
- 85 Hidden
- 86 Thickly packed
- 87 Artistic cult of the '20s
- 88 Wheat byproduct
- 89 Zenith
- 90 Ruminant
- 91 Sticky stuff

**DOWN**

- 1 Retiree
- 2 OPEC vessel
- 3 Preparations
- 4 C.I.A. forerunner
- 5 Church section
- 6 Festive celebration
- 7 Word at the bottom of a page
- 8 Salamander
- 9 Sarge, I admire your desire to keep up with the times
- 10 Some expatriates
- 11 Toledo tabbies
- 12 Limber
- 13 Transmits
- 14 All hot and bothered
- 15 Hand it up
- 16 Winter
- 17 "Emulate a bee
- 18 Coterie
- 19 Treat for Trigger
- 20 Meeting place for Mets
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- 37 Artistic cult of the '20s
- 38 Wheat byproduct
- 39 Zenith
- 40 Ruminant
- 41 Sticky stuff

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### DENNIS THE MENACE



"THIS CAMOUFLAGE SUIT DOESN'T WORK. MR. WILSON CAN STILL SEE ME!"

### JUMBLE

THAT SCRABBLE WORD GAME by Henri Arnold and Bob Lee

Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

DUJEG

HUTEC

INVOIL

TOPITE

Answer:



HIS  
FABLE  
ENOUGH  
INDIGO

Friday's Jumble: BLOAT FABLE ENOUGH INDIGO  
Answer: What position does a monster play on a hockey team?—"GOHULIE"

### WEATHER

#### EUROPE

High: 25° C, Low: 15° C

Aleppo: 25° C, High: 25° C, Low: 15° C

Amsterdam: 15° C, High: 15° C, Low: 10° C

Athens: 15° C, High: 15° C, Low: 10° C

Berlin: 15° C, High: 15° C, Low: 10° C

Brussels: 15° C, High: 15° C, Low: 10° C

Bucharest: 15° C, High: 15° C, Low: 10° C

Copenhagen: 15° C, High: 15° C, Low: 10° C

Costa Del Sol: 15° C, High: 15° C, Low: 10° C

Dublin: 15° C, High: 15° C, Low: 10° C

Edinburgh: 15° C, High: 15° C, Low: 10° C

Florence: 15° C, High: 15° C, Low: 10° C

Geneva: 15° C, High: 15° C, Low: 10° C

Helsinki: 15° C, High: 15° C, Low: 10° C

Istanbul: 15° C, High: 15° C, Low: 10° C

London: 15° C, High: 15° C, Low: 10° C

Madrid: 15° C, High: 15° C, Low: 10° C

Milan: 15° C, High: 15° C, Low: 10° C

Moscow: 15° C, High: 15° C, Low: 10° C

Nicosia: 15° C, High: 15° C, Low: 10° C

Paris: 15° C, High: 15° C, Low: 10° C

Prague: 15° C, High: 15° C, Low: 10° C

Rome: 15° C, High: 15° C, Low: 10° C

Stockholm: 15° C, High: 15° C, Low: 10° C

Stockhousen: 15° C, High: 15° C, Low: 10° C

Vilnius: 15° C, High: 15° C, Low: 10° C

Zurich: 15° C, High: 15° C, Low: 10° C

**MIDDLE EAST**

Ankara: 15° C, High: 15° C, Low: 10° C

Bahrain: 15° C, High: 15° C, Low: 10° C

Beirut: 15° C, High: 15° C, Low: 10° C

Bahrain: 15° C, High: 15° C, Low: 10° C

Jerusalem: 15° C, High: 15° C, Low: 10° C

Tel Aviv: 15° C, High: 15° C, Low: 10° C

**OCEANIA**

Auckland: 15° C, High: 15° C, Low: 10° C

Sydney: 15° C, High: 15° C, Low: 10° C

Cloudy; to-sunny; 70° F; 70° F; not available; overcast; no clouds

Cloudy; to-sunny; 70° F; 70° F; not available; overcast; no clouds

MONDAY'S FORECAST: Cloudy; slightly cloudy; 70° F; 70° F; not available; overcast; no clouds

TUESDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

WEDNESDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

THURSDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

FRIDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

SATURDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

SUNDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

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SUNDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

MONDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

TUESDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

WEDNESDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

THURSDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

FRIDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

SATURDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

SUNDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

MONDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

TUESDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

WEDNESDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

THURSDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

FRIDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

SATURDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

SUNDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

MONDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

TUESDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

WEDNESDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

THURSDAY'S FORECAST: Partly cloudy; 70° F; 70° F; not available; overcast; no clouds

FRIDAY'S FORE



